The Free Market

"If you don't create a free market, a black market will emerge"

NEWSLETTER OF THE LITHUANIAN FREE MARKET INSTITUTE - www.freema.org/Newsletter/index.phtml

NEWS

LFMI's President debated on the future of Iraq's economy in Baghdad

On September 20-21, LFMI's President Ugnius Trumpa participated in a round table discussion in Baghdad, Iraq, which was held to encourage leading Iraqi civil servants and businessmen to implement market reforms and to share Central European and Baltic experiences to help Iraq in a transition process.

As *The New York Times* wrote after the event, a select group of leading architects of Eastern Europe's structural reforms in the last decade gathered in Baghdad "to describe the lessons they have learned in moving from tyranny to democracy."

"Our European colleagues... know the challenges of transitioning from command economies to free markets," said Colin Powell, US Secretary of State, in a video address. "They also can attest that staying the course of reform is well worth the struggle." As the conference organisers told the *Financial Times*, they were turning to "new Europe" to help lay the foundations of a "new Middle East."

Fourteen speakers from Europe outlined lessons learned in privatizing state-owned enterprises, promoting a healthy business and investment climate, fostering private sector development, and implementing sound fiscal policy. The event was organised by the U.S. Department of State and the U.S. Agency for International Development.

The Institute analyses problems of tax administration

Pursuing activities in the area of tax policy, LFMI analysed a new draft version of the law on tax administration and submitted comments to relevant state institutions. LFMI criticised provisions of the draft law specifying that banks and other undertakings must provide information about the amounts of cash paid out to customers, bank accounts opened and closed in Lithuania and in foreign countries, securities purchased and goods and services sold. LFMI policy analysts argue that purposeless and massive collection of information will only inflict extra costs on market participants without ensuring better tax collection.

LFMI also criticises a provision which lays down banks' obligation to write off tax arrears from the taxpayer's bank account as such a procedure goes against the approach that the taxpayer should "pay" taxes rather than the tax collector should "collect" them. Tax compliance should not be encouraged and ensured by such draconian measures.

LFMI also concluded that seeking to avert "fierce actions" it is expedient to confine the objectives of the State Tax Inspectorate to the execution of legal acts regulating tax administration. The policy analysts believe that the Inspectorate should not participate in shaping the tax administration policy.

Moreover, LFMI recommended that ambiguities and inadequacies in tax laws should be solved in favour of the taxpayer ultimately and unconditionally, that taxpayers should be allowed to choose the form for submitting a declaration of income (electronically or on paper), etc.

LFMI presented the 12th survey of the Lithuanian economy

In September LFMI presented the twelfth survey of the Lithuanian economy providing market participants' forecasts for 2003 (updated) and 2004. The survey conducted in July through August 2003 shows that in 2003 the growth of the Lithuanian economy will intensify, personal earnings will continue to go up, the costs of borrowing will decrease but financial indicators of companies are not expected to change. Market participants predict that in 2004 the economy will grow at a similar rate, household income and personal earnings will rise more rapidly and corporate indicators will improve. A summary of the survey can be accessed on-line at http://www.freema.org/Projects/Survey12.phtml.

LFMI completed a project on protection of ownership rights

In September LFMI completed a half-year project "Protection of Ownership Rights and Public Policy on Economic Sanctions" which was implemented in co-operation with the Lithuanian Centre for Human Rights. The goal of the project was to promote the development of an effective ownership protection system by identifying the problems related to the establishment of the ownership concept in the Lithuanian law and by submitting recommendations on how to better protect ownership rights in relation to the establishment of economic sanctions and their application.

Within the framework of this project, a quantitative survey was conducted to find out the opinion of Lithuanian companies about tax administration and policy on protection of ownership rights. The survey showed that, contrary to a popular belief, the biggest danger to the ownership of Lithuanian business people is posed by ill-written laws and their inappropriate implementation rather than the acts of law enforcement agencies and tax administrators. A total of 45.5% of respondents believe that their ownership is not safe and as much as 50.8% claim that more explicit and stable laws would be a decisive factor in reducing the number of violations of tax laws.

The major task of this project was to develop a comprehensive study on policy of ownership rights and economic sanctions. It presents analysis of regulation of ownership rights in principal international and national legal acts. According to the analysis, the ownership right and its interpretation are conceived virtually the same both in the European Human Rights Convention, the Constitution of Lithuania and other legal documents in Lithuania. However, striving for better protection of ownership rights, it is essential to amend certain legal acts and principles of legislation.

The study also analyses economic sanctions laid down in the Lithuanian legal acts. A special focus is placed on provisions of the Law of Tax Administration and the Code of Administrative Violations of Law. The central object of this analysis is the problem of compatibility of ownership rights and economic sanctions.

The results of the project were presented at a press conference in April and a seminar held in June. The project was financed by Democracy Commission Small Grants Program, U.S. Embassy. The study in Lithuanian can be accessed on-line: http://www.lrinka.lt/Projektai/Nuosaps.phtml.

LFMI implements a project on economic security

In September LFMI launched a new project which is aimed at conducting a scholarly study on how to ensure and tighten economic security in Lithuania. The overall goal of the project is to analyse preconditions needed for the ensuring and strengthening of economic security in Lithuania and to propose the most fitting policy measures. The study will analyse a concept of economic security and different approaches towards it. It will provide an evaluation of policy measures currently taken in Lithuania as well as legal, economic, financial and political factors and their affects on economic security. The study will also assess practices of other countries, mostly the EU member states, and will single out and evaluate basic risk factors and measures of increasing security based on different approaches to this phenomenon. LFMI will provide valuations and conclusions that could be incorporated into a programme on state economic security.

The project will be completed in December 2003. LFMI has won a tender announced by the Ministry of Economy of Lithuania.

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INTERVIEW

The following interview with LFMI's President Ugnius Trumpa was published in the specialised weekly 'Mokesciu zinios' (Tax News) on October 6, 2003.

Why do we Need Lower and Simpler Taxes?

Interview with Ugnius Trumpa, President, LFMI

As Lithuania is integrating into the European Union, it is important to find a sound scheme of a tax system which would ensure fair conditions for competition among the EU member states. Are we on the right track in this respect?

While integrating into the EU, Lithuania has to adopt a certain portion of legal regulations, including tax rules, according to EU requirements. Nevertheless, we have a lot of leeway in making our own decisions regarding both individual taxes and their administration, and the overall tax system. For instance, the EU regulates in detail the application of indirect taxes but leaves direct taxes solely within the competence of the member states. Drawing on the analysis of Lithuania's integration practice, it is evident that state institutions have set up the only goal for themselves – to take over and implement immediately those EU requirements which secure bigger budget revenues. Regrettably, all tax officials ignore the issues of the Lithuanian companies' competitiveness in the single EU market. It is particularly sad that the "European" card is often used for bluffing in order to increase taxes. Playing on the situation that negligibly few Lithuanians know what the EU requires exactly, officials have repeatedly put forward such arguments as 'Brussels and other international organisations require to impose this and that' in order to justify the expansion of the corporate income tax base or to levy the real estate tax for individuals. Moreover, questions about our country's capacities to compete in the EU are often answered by saying a half-truth: politicians keep claiming that the rate of the corporate income tax has been slashed markedly and that the tax burden in Lithuania is lighter as compared with the majority of the EU member states. However, today we do not have a targeted policy which would be designed to turn Lithuania into the most attractive EU member state in terms of the tax policy.

What do you think should be done to maintain Lithuania's sovereignty in setting taxes as we join international organisations?

Sovereignty in the international organisations does not guaranty *per se* that the Lithuanian tax system will become a lighter burden to people and businesses in the country. For example, shortly after joining the World Trade Organisation and manifesting publicly a desire to join the union that professes the free trade and sees its benefits, Lithuania started clinging to the countries who called for maintaining higher import duties on agricultural production and searched for ways to continue subsidising this ineffective and over-regulated area of the economy at the expense of consumers. There is no doubt that if we knew that the Lithuanian politicians and administrators would ensure an easy tax burden and other conditions for people's welfare without any pressure from international organisations, we would have no arguments then supporting the idea that in joining international organisations we must sacrifice certain freedoms in order to obtain other ones. In such a situation, even Switzerland's position could be a model for Lithuania.

Is the country's tax system being sufficiently harmonised with the EU directives? What should be highlighted before implementing the EU tax rules?

When taking over EU requirements, it was necessary to negotiate with the EU for as many transitional periods as possible, needed for the adoption of those regulations that reduce or constrain more rigidly the existing freedoms of people in Lithuania. For example, raising the excise duties could have been moved later in the calendar because consumers in Lithuania had already experienced the negative effects of integration and will witness them even more conspicuously in the future. The cases of Sweden, Estonia and even Latvia show that these countries are more concerned about a lighter burden of excise duties for their citizens than Lithuania is. But this had to be done as far back as the negotiations over the terms of accession were taking place. Today, the most crucial task is the implementation of the EU-based, i.e. harmonised, laws. Future prospects of the bulk of enterprises will depend on the procedures and details of their implementation. Currently, there is a lack of information announced publicly about many of the changes which are to take place in May next year. For this reason, there is a natural concern about whether our state institutions are ready to live in the European way.

What is your opinion about the current tax policy pursued in Lithuania?

The current tax policy has some very serious maladies. The first one is a result of the feeble budget policy and populist political goals. Having promised various goodies to their voters and seeking to deliver on these promises, politicians tend to boost the state budget and demand for increasingly more money from tax planners and tax administrators. It's not much of a problem, if the economy is growing very rapidly. However, politicians' wishes usually grow faster than the economy does, and then they are forced to alter tax rates or the tax base and 'enhance tax administration' or resort to declared or undeclared rigid measures. There is only one remedy to eliminate this malady - a politically-set goal to decrease people's dependency upon the budget. This would provide a solid base for trimming the budget and taxes. Simultaneously, the tax burden placed on people would be lifted, and tax collectors would no longer have the sword of Damocles – a threat of being removed for poor tax collection – hanged above them by politicians.

The second malady is all-out stubbornness and refusal to believe that lower and simpler taxes ensure a better tax collection, as they encourage more and more people to leave the informal sector and get used to paying taxes. Although this theoretical assumption has lately been confirmed by practical solutions in Russia, Estonia and other countries that are lowering taxes, the Lithuanian politicians and tax administrators rush at estimating potential losses of the budget at a mere hint at tax reduction.

One more malady of the tax system is its complexity. An impressive array of taxes, tax breaks and tax relieves, coupled with a desire to define things minutely and to copy the 'global practice,' turns the tax rules into a delusive jungle where both taxpayers and tax administrators have serious difficulties to put two and two together. Among particularly harmful defects of tax administration can be listed the abundance of criteria for valuation in making decisions and the so-called 'supremacy of the content over the form.' These criteria turn tax inspectors into evaluators of property, transactions and prices who know the one and only truth on the market.

Businesspeople complain that they are confronted with a number of difficulties because the new tax laws go into effect too promptly, the new concepts are vague and tax administration procedures are too complicated. Do you uphold this opinion?

I completely agree with this opinion and I would even expand on it. Amending and drafting laws has been a closed domain for the society so far. As a result, the dates when laws are to take effect have not been discussed to match the financial year of the companies, and, even worse, their enforcement is often backdated. Undoubtedly, this prompts confusion and discontent. However, this mess is related not to the drafting and implementation of the tax laws alone. The same is true of the vast majority of legal acts. So long as legislation will not be strictly planned and state institutions will continue drafting laws and decrees in tune with their interests and hiding from the society, the laws will keep triggering off complaints of both people who execute them and those who supervise their execution.

Officials keep on declaring that they support small and medium size business and call for its development. But is this priority sector given enough attention? What measures should be carried through to improve the business environment in Lithuania?

Officials and politicians' focus on small and medium size business usually has a somewhat political shade. As a rule, it is increased before elections and usually falls down when specific issues have to be resolved. If minimal and uniform business rules were created, companies of any size would have least objections and problems, and there would be no need to distinguish companies by size or type of activity. The complaints of small businesses should be taken very seriously as their opinion is like litmus paper, clearly showing where the core of the problem leis, which is usually borne more easily or is experienced not so evidently by larger enterprises.

Experts underline that the tax burden in the country does not weigh evenly for labour and capital. What should be done to level off this disproportion?

Dissatisfaction with different taxation of labour and capital is provoked by a crushing tax burden that falls on the end-users. They have to pay not just labour-related taxes (the personal income tax, the social security contribution) but also the value added tax and other taxes that are shifted onto the final price of a product or service by participants of an entire economic cycle. The Lithuanian tax system which is loaded with a plethora of various taxes and different tariffs, coupled with the high personal income tax and the social security contribution, only intensifies social discontent as people start peeking around to find out who pays how much; they begin poking hands into the pockets of those who earn more and demanding that higher-income people pay more in taxes. If all taxes were levied on capital, either of two scenarios are likely to unfold: if taxes can still be borne, they will be transferred to the end-user, and if the tax bill becomes too massive, the capital will flee the country elsewhere where economic activities can be performed for the time being, and Lithuania's economic development will come to a standstill. Therefore, seeking to avoid social tension and maintain economic growth, it is necessary to cut taxes (tax collection is always more of a technical issue) and reduce people's dependency on the budget. A similar course was taken in Ireland where these measures became the key factors of economic growth.

The country's economy is recovering but tax collection is still faced with problems. Why is it so?

The poor tax collection is determined by defects of the system. A share of the economy is in the shadow because of the high taxes and the unwieldy procedures of tax accounting and tax administration. The informal economy has a direct impact on improving the official economic figures; yet, it is out of the horizon of officials who administrate and account taxes. We can make a presumption that if one day, under the current tax system, everybody paid all the taxes they are required, our politicians would not be able to boast about business performance in Lithuania. Much the same is reported about the Italian economy which, according to famous Italian economic experts, is rising entirely thanks to the informal sector.

What do you think should be done to alleviate the tension between taxpayers and tax administrators?

The roots of the current tension lie in the tax system. If taxes were lower and tax rules more transparent, it is likely that tax administration could be automated and depersonalised most significantly. In that case, there would be actually no room for objections regarding administration procedures and disputes about interpretation of regulations or application of rules. It is also necessary to eliminate a disproportion between rights and duties of tax administrators and taxpayers established by law, because presently tax administrators enjoy nearly only their rights, and the taxpayers have nearly only their duties. This is likely to satisfy both sides, and the lingering tension would subside.

Some experts believe that the eminence and status of legal tax relations in the state require that financial disputes were solved particularly professionally. Wouldn't it be sensible to establish tax courts in Lithuania?

It would be undoubtedly sensible. The Tax Dispute Commission, set up independently from the Government, should have been fulfilling similar functions of a tax court, but it has been turned recently into the Finance Ministry's tool and, naturally, has missed its rights and the mission.

Conducted in spring, the LFMI survey revealed that twice as many entrepreneurs blame ill-written laws for violations of their property rights rather than the officials who control how laws are executed. What conclusions should be drawn from this data?

The survey showed that businesspeople are well aware of where the problems related to any control and administration lie. Businesspeople do not fault the officials because they understand and, perhaps, even pity them for the laws and regulations they are forced to follow. Today top officials in Lithuania focus largely on the issues of officials' preparation, qualification and delegation of power as regards the EU. But it is important to realise that under the existing mess in the laws, neither education nor qualification can be sufficient solutions if the system is not changed timely.

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COMMENTS

The following commentary by Ruta Vainiene was broadcast on the National Radio after the referendum on the EU took place in Latvia.

How will we Live in the EU?

By Ruta Vainiene, Vice-President, LFMI

On September 20, a referendum on membership of the European Union took place in Latvia. Over 70 percent of the electorate participated in the referendum and 67 percent voted for EU membership. Being quite sceptical towards Europe, Latvia completed a marathon of referenda. On May 1 next year, the European Union will become an alliance of 25 states, Lithuania among them.

What thoughts are raised by the fact that we are becoming members of this alliance? What will we gain, what will we pay, and how will we live? Or what should we do to enjoy the advantages of the European Union without taking over its maladies?

All preparations Lithuania has been making with respect to EU integration until now can be viewed as doing homework. Those seeking to become EU members had to harmonise legal acts and prepare to open up borders for free movement of capital, goods and people. They had to get ready, but not yet belong to the Union. They had to summon all the potential and be ready at the start. Becoming members of the EU will actually take place on May 1, 2004. It will be then that the real test of the European Union will begin. It will be clear then whether we have done our homework properly. Whether we have accumulated potential and firmly stand at the start. However, some issues can be evaluated already now.

For instance, there is this question of whether we have developed sufficient competitive potential for an effective participation in the common market of the EU. The precondition of competitiveness is an ability to produce at a low cost, and low taxes is the key economic lever. What taxes are in Lithuania – high or low? Politicians have clashed heatedly over this issue of late. Some claim that taxes in Lithuania are no worse than those in Europe; others blame the former for lying. In my view, taxes in Lithuania are as high as in Europe, and that is a major problem. Lithuanian taxes do not provide a competitive advantage; they do not help to build potential. Taxpayer-friendly rules have been eliminated quite needlessly. And this was not for the will of the EU commissioners but by decisions of our national government.

It should be added that the parliament got cracking. It hastened to reduce taxes. But don't get too excited - not for all industries, just for agricultural enterprises. It has been proposed to abolish the road tax, the corporate income tax, the real estate tax and the value added tax for these enterprises. And this is happening at the same time as Lithuania expects a hefty financial support from the EU for its agricultural sector. A support which is being criticized widely and fiercely in Europe itself for backing up the ineffectiveness in agriculture. This ineffectiveness is always paid expensively by all consumers and taxpayers. Sadly, we don't accept this ineffectiveness, brought by Europe into the area of agricultural support, as an inevitable evil, nor we wait for essential changes in the EU's common agricultural policy that are being nurtured at the moment. Instead, we double this evil with our decisions. We would be spoiling agriculture only with money, but now we will spoil it also by tax breaks. It will be entirely our own fault if we have evil square.

What conclusion can be drawn from our prospects in the EU? It's that a fool is a fool. Either in the EU or in the USSR, there is no vaccine against stupidity or populism or, perhaps, the power of political interest. The EU will not rescue us, and our government will not take the trouble to do that either (they will mind just for their own good). So if we want a better life, we can only rely upon ourselves.

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COMMENTS

The following commentary presents LFMI's opinion about the ongoing talks about competitiveness in Lithuania. It was broadcast on the National Radio.

Competitiveness – a Poetic Way to Talk about Efficiency?

By Ramunas Vilpisauskas, Senior Policy Analyst, LFMI

It has become fashionable to talk about competitiveness in Lithuania lately. Competitiveness is identified as one of priority goals in a number of economic development strategies, seminars are held to discuss this issue, plans are made to establish a board of competitiveness and so on. This enlivenment in part can be understandable: as the EU and NATO membership is approaching, politicians need to find new attractive slogans to capture the attention of their electorate and sponsors. Competitiveness, country's in particular, suits the best for that purpose as this notion may mean a variety of things and can be interpreted in lots of ways.

On the other hand, in this particular case, as in many others, we are walking on the beaten track: in Western Europe public leaders started talking about competitiveness in the 60s when Europe's lagging behind America caused a concern. Later on this issue became popular in the US as well when their experts and politicians began to fear that they were loosing a competitiveness race to Japan and countries of South Asia. In the beginning of the last decade, the issue of competitiveness regained its popularity in the EU who felt concern over a widening gap between the US and EU countries. This particular concern can be testified by one of the key priorities set for the EU today – to become the most competitive economy in the world by 2010; in other words, to catch up with, and outride, America.

It is small wonder then that Lithuania is taking over this concern over its competitiveness from the EU. But are we really taking over the best things from what was developed in this field during the heated debates in the US and EU? It doesn't seem so. Routinely, we start complicating everything around us: we talk about innovations, technologies, investments, priority industries, the state, companies, and establishment of new boards and so on.

It is worth to remind that after long discussions many US and EU experts decided to apply this notion solely to companies, not countries. The main reason was the ambiguity of this term. Competitiveness of a country is understood as ability to sell in the international markets, at the same time ensuring conditions for employment and an increase in personal income. It says virtually nothing about the conditions needed for competitiveness and often determines a fallacious economic policy – promotion of exports, restriction of imports, support for priority sectors at the expense of other areas, etc.

Not vainly one well-known US economist said a right thing ten years ago that discussions about competitiveness are, at best, a poetic way of talking about efficiency, and it makes sense only when we talk about companies, not countries.

This should be reminded to those who are getting increasingly concerned about Lithuania's competitiveness and usually forget such a simple thing as competition. And so long as there are no conditions for free competition in Lithuania, other measures for enhancing competitiveness will fail to achieve their goals and will even choke it off.

The prime example is the application of import duties as it diminishes competition and companies' motivation to increase their efficiency most of all. More than that, market entry is restricted not only for foreign products, but also for opening of Lithuanian companies, and barriers for the entrepreneurship single out Lithuania from other countries in the region from the negative side.

Only when free competition is in place will we be able to think about investments, innovations and information technologies. But, perhaps, forced to compete, by then companies would have taken care about that themselves.

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FEATURE

This article the author analyses differences in methodologies of evaluating economic freedom, presents Lithuania's rankings among other countries and discusses discernable trends that the world is likely to be following.

Road to Prosperity: Economic Freedom

By Ruta Vainiene, Vice-President, LFMI

Why do some countries flourish and others languish? What is the formula for economic prosperity and growth? What has to be done so that people and companies earn more? These questions troubled economists who tried to unriddle the secret of enrichment. Back in the middle of the last century, economic theorists proved that only the reign of the market creates the best prerequisites for the growth of peoples' economic welfare.

However, theory is not always convincing; ordinary people, and sometimes politicians, want "harder," practical, evidence. Fortunately, today we have as many as three surveys, counting over a decade, which prove practically a direct link between economic freedom and economic welfare. Reports on economic freedom are conducted by the U.S.A. Heritage Foundation, the Freedom House and Canada's Fraser Institute. The latter has published the most recent annual report on "Economic Freedom in the World."

On methodology

The Fraser Institute has been conducting freedom studies since 1986 in 123 countries, together with similar organizations (the Lithuanian Free Market Institute in Lithuania). In conducting them, third-party statistical data has been used to help ensure objectivity. The development of the methodology for the report was led by Nobel Prize winner Milton Friedman. Today, M. Friedman sees the freedom index as a roadmap to building prosperous and democratic nations. "Freeing people economically unleashes individual drive and initiative and puts a nation on the road to economic growth," he says. Empirical data confirms an old economic truth – economic freedom is the foundation for the creation of peoples' welfare.

The freedom index measures economic freedom in five key areas – size of government: taxes, expenditures and enterprises; legal structure and security of property rights; access to sound money; freedom to exchange with foreigners; and regulation of credit, labour and business. In total, 21 components are incorporated into the final integrated index, which decides the country's ranking. The most recent report publishes the 2001 freedom ratings.

Lithuania in the world

According to the Fraser report, in 2001, Lithuania received a rating of 6.2 and was ranked 69th together with Cyprus, Mexico and Tanzania. The neighbouring Baltic States have outscored Lithuania in freedom ratings: Latvia was ranked 51st, and Estonia – 16th. Neighbouring Poland is lagging behind and was ranked 77th. Compared to the last report, the amount of freedom in Lithuania has changed very insignificantly, however, Lithuania dropped from 68th to 69th position.

But if we were to look at the report by the Heritage Foundation, we would see a slightly different arrangement of the Baltic States. Estonia, an unquestionable leader in the Heritage index, ranked 6th, while Lithuania, ranked 29th, outran Latvia, ranked 33rd. Both indexes agree that Hong Kong leads the freedom index, with Singapore ranking 2nd.

Where Lithuania lags behind and what are the future perspectives?

In which of the said five areas is Lithuania leading, in which is it lagging behind and why?

In the Fraser report, Lithuania received the least amount of points (meaning that there is least freedom) in the area of labour regulation. This area focuses on the impact of the minimum wage, flexibility in hiring and firing, a share of labour force whose wages are set by centralised collective bargaining, and other labour regulations. Flexibility in hiring and firing received a particularly low rating, which, despite being liberalized by a new labour code effectual form 2003, still remains quite rigid. Even if there is hope that in light of the new labour code the rating might go up next year, a decision to increase the minimum wage from 430 to 450 *litas* will undoubtedly pull the rating down.

A significant number of people in Lithuania receive a minimum wage. This is an indicator that it is not that minimum, but rather "average." A decision to raise the minimum wage was likely driven by plans to increase budget revenues, rather than was a result of changed market conditions.

Compared to the neighbouring Baltic States, Lithuania received a particularly small amount of points for the monetary policy pursued. Having an analogous monetary system to that of Estonia – the currency board, and for the past ten years enjoying a stable national currency, *Litas*, Lithuania received a rating of only 7.5, while both Estonia and Latvia got a rating of 8.8. This part of the report casts somewhat doubts on its methodology. It measures the growth of money supply, which indicates the level of government intervention in the money market; however, with the existence of the currency board this measurement has a completely different meaning. In the instance of a pegged currency, the growth of money supply is stimulated not by the central bank, but, for the most part, by investments. The currency board renders the central bank harmless, almost unable to influence the monetary policy. Therefore, different measurement criteria should be applied to countries with strict currency board systems. In the area of monetary policy, Lithuania indeed has a potential to better its rating if the methodology was improved. However, it should not be forgotten that in such a case a change in ratings in the freedom index would not mean an increase in freedom and welfare.

According to the Fraser index, Lithuania enjoys the most freedom in the area of exchange with foreigners; the amount of freedom was evaluated with 7.8 points. Indeed, Lithuania has abolished most import and export restrictions, has concluded free trade agreements with 31 countries, which include important trade partners. The tariffs of customs duties applied in Lithuania are comparatively low; they amount, on average, to 2.5 percent (and to 12.5 percent for agricultural products). Integration into the EU will somewhat correct these figures. The average tariff of customs duties (conventional customs) will go up to 4.5 percent, and to 14.4 percent for agricultural products. Besides, it is noteworthy, that the extent of non-tariff barriers, measured by the Fraser's freedom index, is increasing. So in the future the amount of freedom to exchange with foreigners will shrink.

The world – in shackles?

What does the globe look like in progress? Is humanity striving for more economic freedom, or is apt to give it up, agreeing in turn to lose part of well-being? And even though no one calculates the freedom index of the world, the trend can be discerned by looking at individual countries. The freedom indexes are falling in all countries, even in the leading ones – Hong Kong and Singapore. Once rated the highest, 9 points, Hong Kong received only 8.6 points. No country has ever had absolute freedom – a rating of 10 points. Countries are becoming more similar, but, most sadly, they settle not for freedom, but for the restraints thereof. The lesson of economic prosperity is yet to be learned.

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If you don't create a free market, a black market will emerge

The founders of LFMI are – Prof. Kęstutis Glaveckas, Nijolė Žambaitė, Dainius Pupkevičius, Petras Auštrevičius, Elena Leontjeva and Darius Mockus.

LFMI pursues its mission by conducting research on key economic policy issues, developing conceptual reform packages, submitting policy recommendations at the legislative and executive levels, drafting and evaluating legislation, and launching public campaigns. LFMI's activities also include sociological surveys, publications, conferences, workshops, and lectures.

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